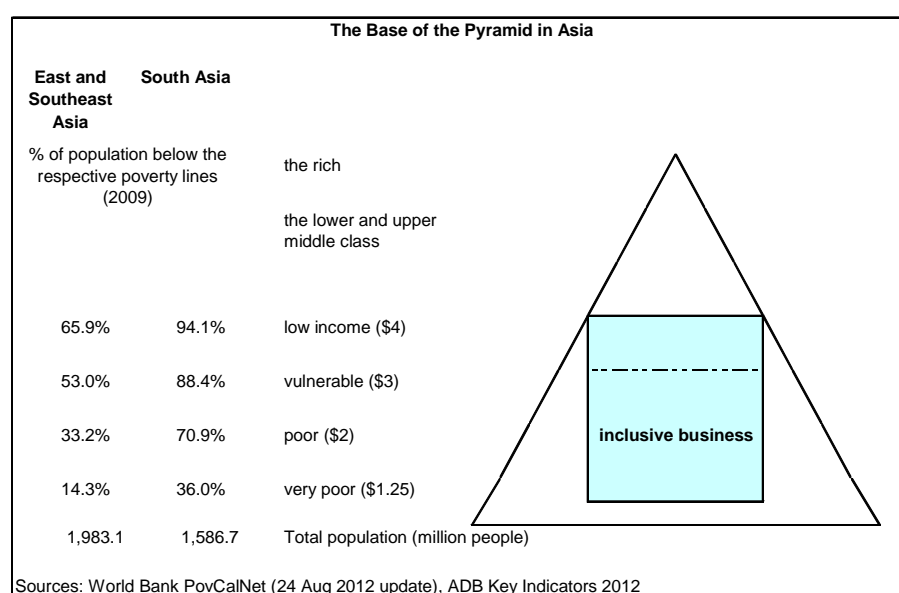# WHAT IS INCLUSIVE BUSINESS
AND HOW DOES IT IMPACT POVERTY IN ASIA

Promoting inclusive growth through business development at the base of the pyramid: Over the past two decades, the Asia and the Pacific region has sharply reduced the share of its population living in poverty to 21% ($1.25 per capita income/expenditure at purchasing power parity of 2005) and 47% ($2), as of 2008. Many countries in the region have also broadened their approach toward economic development and moved from poverty reduction to promoting inclusive growth strategies that can sustainably benefit the poor and vulnerable. While the private sector has been a key contributor to the economic boom in Asia, it has yet to fully realize its potential in creating shared value, which is to promote business models that integrate the low-income segment in unique and innovative ways that generate company growth while creating value for the low-income segment and directly contributing to poverty reduction. As such, there is an increasing agreement that the private sector growth can be a powerful tool in the global fight against poverty, if its business is more specifically targeted towards creating impact at the lower income groups.

The Base of the Pyramid in Asia

East and Southeast Asia	South Asia		
% of population below the respective poverty lines (2009)		the rich	
		the lower and upper middle class	
65.9%	94.1%	low income ($4)	
53.0%	88.4%	vulnerable ($3)	
33.2%	70.9%	poor ($2)	inclusive business
14.3%	36.0%	very poor ($1.25)	
1,983.1	1,586.7	Total population (million people)	

Sources: World Bank PovCalNet (24 Aug 2012 update), ADB Key Indicators 2012

Beyond BoP: Asia's private sector is increasingly realizing that the base of the income pyramid (BoP), i.e. those living below the $3-$4 poverty line, represents an interesting business opportunity as a substantial new market for goods and services that can improve the livelihoods of the p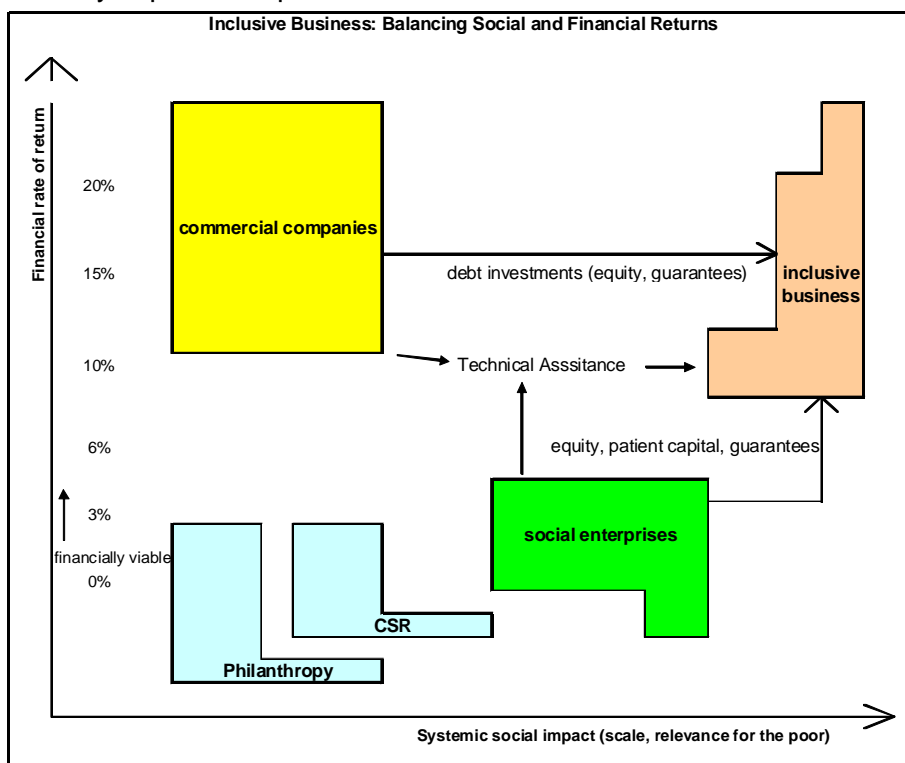oor and vulnerable, and as a significant pool of entrepreneurship, assets, talent and productivity that can be leveraged for the supply of critical inputs, innovative distribution systems, and skilled labor.

Systemic approach to build income and provide relevant goods and services for the poor: Inclusive businesses are private sector investments specifically targeting this low income market with the double purpose of making reasonable profit (i.e. an internal rate of return of 8-20%) and creating tangible development impact through the provision of sustainable decent jobs and better income opportunities, as well as services that matter for the poor's life. For ADB, inclusive business are companies with reasonable financial rate of returns (10%-20%) and large and systemic impact on poverty reduction and living quality that found private sector solutions to core poverty problems by including the poor and low income groups (up to $3) as suppliers of goods and services, distributors,. Employees, and as consumers of social goods.[1]

Balancing financial return and social impact in scale: Inclusive business differs from social enterprises and corporate social responsibility activities in its realized profit making motive, as well as its social impact in scale and systemic contribution to poverty reduction, and consequently also the larger size of investment needs. It also differs from the original base of the pyramid approach that sees the poor mainly as market for private ventures and assumes automatic benefit for the poor through the provision of any consumption good.

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[1] ADB's IB initiative does not target companies that include the poor as mere consumer of private goods that do not have much social value.

Expanding private sector growth through inclusive business ventures on the other side would provide the poor with new jobs and access to quality and affordable goods and services, helping them improve their lives and reducing poverty. However, the private sector has barely explored its potential at the BoP.

Inclusive Business: Balancing Social and Financial Returns

Financial rate of return

- commercial companies
- debt investments (equity, guarantees)
- inclusive business
- Technical Asssitance
- 20%
- 15%
- 10%
- 6%
- 3%
- financially viable
- 0%
- CSR
- Philanthropy
- equity, patient capital, guarantees
- social enterprises

Systemic social impact (scale, relevance for the poor)

Supporting inclusive Business: Inclusive Business are commercially viable firms that either wish to grow from social Enterprise status into serving broader markets and achieving higher returns, or highly profitable companies that want to deepen their reach towards more valuable social contributions. Such enterprises need both debt and equity finance – typically in the range of $0.5-$10 million, as well as technical assistance that help them with business model development and with impact assessment. Often inclusive Business work in markets with distorted economic environments. In addition to finance and mentoring, development assistance can help building a better enabling environment for inclusive businesses' growth.

Characterists of inclusive business and social enterprises					
	Philanthropy / NGO	CSR	social enterprise	inclusive business	mainstream business
business criteria					
financial viability	not viable	not viable	commercially viable	fully commercially viable (profitable)	profitable or highly profitable
rate of return (percent net per year)	0	0	0-10	10-25	10-50
turnover in business (million $per year)	< 0.5	< 0.25	< 1.0	0.5 - 30	> 10
net profit per year (million USD)	0	< 0.05	0.05 - 0.1	0.1 - 10	1 - 500
investment (million USD)	< 0.25	< 0.1	0.1 - 0.9	1 - 15	> 3
growth potential (average percent per year over 5 years)	< 5%	< 2%	5% - 10%	10% - 25%	> 15%
social impact criteria					
main purpose of the business is social impact	yes	yes	yes	mixed (business + social)	no
social impact area	community / local	community / local	local	sector / country / systemic	
bottom line	triple	single or double or triple	triple	double or triple	single
benefitting households (total over 5 years, number of households)	500	250	less than 5,000	5,000 - 50,000	anything
of which poor (under the $2 poverty line, %)	80%	20%	10%	30%	10%
of which vulnerable (under the $4 poverty line, %)	10%	50%	20%	50%	10%
of which non poor and not vulnerable	10%	30%	70%	20%	80%
Other exclusion criteria for ADB Fund				microfinance, BoP business for private consumption goods	